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CURRENT INTELLIGENCE WEEKLY SUMMARY

23 January 1958

PART I

OF IMMEDIATE INTEREST

MOSCOW SEEKS TO MAINTAIN POLITICAL PRESSURE ON WEST

The Soviet Union is seeking to maintain pressure on the West with declarations extending the concept of a "nuclear-free zone" to cover the Balkans and the Middle East. In private statements Soviet officials continue to stress the need for improvement of relations with the United States. Efforts by some neutralist leaders to promote a "summit meeting" of leading neutralist states as a preliminary to a world heads-of-government meeting will probably also be exploited by the Kremlin as part of its political offensive against the West.

On 20 January, Soviet Ambassador-designate to the United States Menshikov told American Ambassador Thompson that top Kremlin leaders, including Khrushchev, Mikoyan, and Bulganin, are firmly convinced of the necessity for an improvement in Soviet-American relations. He stated that awareness by the top leadership of his personal convictions on this subject was apparently the reason for his appointment. Menshikov repeated the current Soviet position on the importance of contacts between top leaders and suggested that "simple contacts" would be more useful than a big conference. He stressed the need of "taking some step, however small," toward improving relations. Menshikov's remarks suggest that one of his major tasks in Washington wil be to press for high-level bilateral negotiations.

In view of Western responses to Bulganin's December letters, Kremlin leaders probably believe that a large heads-of-government meeting is unlikely. Menshikov's statement regarding "simple contacts" may have been intended, therefore, to test the American attitude toward a more restricted conference or high-level Soviet-American talks.

Moscow also appears to be awaiting the outcome of efforts by some neutralist leaders to arrange a "neutralist summit meeting" as a preliminary to calling an East-West heads-of-government conference with neutralist participation. Such a meeting has been proposed by Tito and endorsed thus far by Sukarno, Nasir, and Quwatli. Although the proposal is still vague, the meeting ostensibly would be called for the purpose of promoting a more influential role for neutralist states in reducing international tension.

Bulganin's 10 January note called for summit talks which would include all the NATO and Warsaw Pact powers and representatives of neutralist states. Should support develop for a neutralist meeting, Moscow would exploit such moves in its campaign to force the West to agree to a heads-of-government meeting.

The Soviet bloc continues to press the Rapacki plan for a "nuclear-free zone" in central Europe and has proposed that this concept be applied in other parts of Europe and the Middle East. Following Soviet suggestions that northern Europe and Italy also be covered by similar arrangements, Bulganin Premier Yugov urged in

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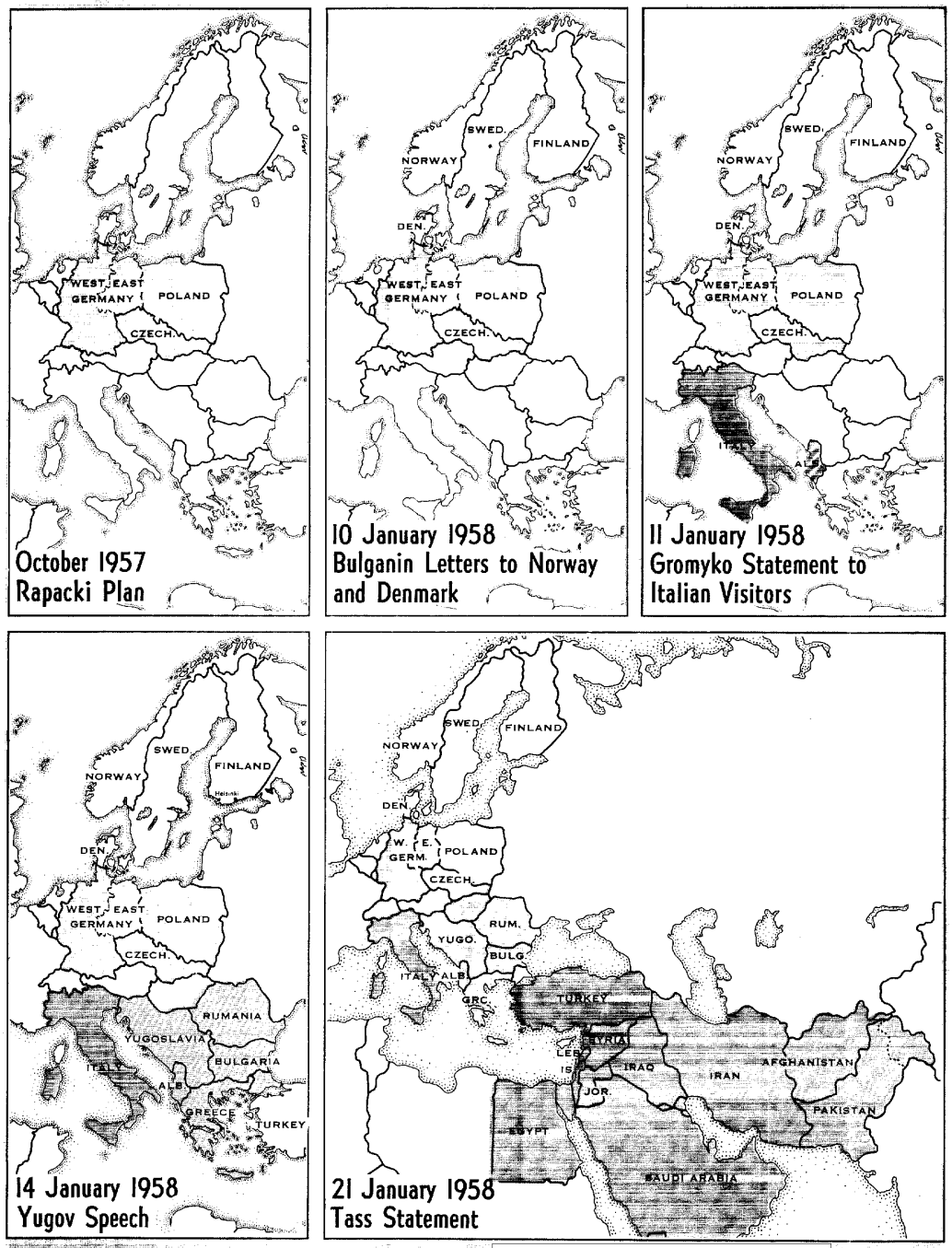
Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

CURRENT INTELLIGENCE WEEKLY SUMMARY

23 January 1958

SOVIET BLOC PROPOSALS FOR NUCLEAR-FREE AREAS



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Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

CURRENT INTELLIGENCE WEEKLY SUMMARY

23 January 1958

a speech before the Bulgarian National Assembly on 14 January that nuclear weapons and guided missiles be prohibited in the Balkans. On 21 January TASS released an "authorized statement" on the forthcoming Baghdad Pact meeting in Ankara in which it declared that the Middle East should also become a "zone of peace free of nuclear and rocket weapons."

While the proposed extensions of the Rapacki plan concept to additional areas have not been put forward officially, they are designed to sustain public interest in high-level talks with the USSR on measures to reduce East-West tension.

Bloc officials, particularly diplomats, have continued to urge acceptance of the Rapacki proposal, with the Poles additionally trying to further the impression that acceptance would lessen Polish dependence on Moscow.

The suggestion that the Middle East become a "nuclear-free zone" is intended to forestall any moves to establish American missile bases in the area and to emphasize the Soviet Union's role as the "champion" of Arab nationalism against the West. Neutralist elements in the Middle East probably will receive the proposal with enthusiasm, and pro-Western Arab leaders will experience difficulty in opposing it publicly.

The Kremlin is apparently confident that its proposals are receiving widespread attention in the West, particularly among West European opposition parties.

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THE POSTELECTION SITUATION IN GUATEMALA

The 19 January elections in Guatemala have produced a potentially explosive situation. Official returns await a review of the votes by Congress beginning on 23 January. The results are not expected for a week or ten days. It is clear, however, that none of the three major candidates won a majority and that, therefore, it is Congress' duty to choose betweeen the two with the most votes. Unofficial returns give rightist General Ydigoras a plurality, while centrist Cruz Salazar has apparently placed second and leftist Mendez Montenegro a close third. If Congress, which contains a pro-Cruz majority, does not name Ydigoras president-elect, serious mob violence is likely.

The action of Interim President Flores in prematurely releasing election returns favorable to Ydigoras strongly suggests he has thrown his influence on the side of Ydigoras.

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Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

CURRENT INTELLIGENCE WEEKLY SUMMARY

23 January 1958

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[redacted] Meanwhile, backers of Cruz and Mendez have vigorously attacked Flores' version of the election returns as fraudulent, and offered conflicting counts of their own. They agree that Ydigoras obtained a plurality, but disagree on who placed second.

Ydigoras has announced he expects to be named president-elect by Congress. He has clearly implied that if he is not, his supporters will take to the streets and fight. The political groups backing Cruz, which are believed to be armed, would probably retaliate.

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Cruz is believed to have the support of at least 35 of the 66 members of Congress. If Congress decides that Cruz' election showing cannot justify naming him president-elect, it might disband rather than select Ydigoras, thus abandoning constitutional order and inviting a coup.

The army is weakened by factionalism and is lacking in effective leadership. It could suppress sustained disorders only if it remains united. Although it has tried to appear the politically neutral guarantor of constitutional order, one influential faction so dislikes Ydigoras that it is believed to prefer a coup to his coming to power. A coup attempt would be sure to provoke serious disorders. [redacted]

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VENEZUELAN ARMED FORCES OUST PRESIDENT PEREZ

The Venezuelan armed forces ousted President Perez on 23 January after two days of widespread violence. The disorders resulted from a general strike which climaxed the mounting civilian opposition to his regime since the 1-2 January revolt. A five-man military junta replaced Perez, who is believed to have left by plane for the Dominican Republic. The junta's principal tasks will probably be to restore and maintain order and win civilian cooperation during a transitional period of government.

The junta, which is headed by Admiral Wolfgang Larrazabal, includes representatives of all components of the armed forces and has only two members who were also among the "colonels' clique" that backed Perez' rise to power. The junta has already relaxed controls somewhat by releasing a large number of political prisoners, restoring to rank the officers involved in the 1-2 January revolt, and lifting strict censorship.

Civilian elements, which seized the initiative against

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

CURRENT INTELLIGENCE WEEKLY SUMMARY

23 January 1958

Perez after the revolt, will probably be granted an important voice in the new regime. Exiled leaders of the three principal political parties,

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may be allowed to return to Venezuela shortly and are likely to be prominent in the government or the formation of its policies. These men include two former presidents of the outlawed Democratic Action party--Romulo Betancourt and Romulo Gallegos. In addition, another former president, respected elder statesman Lopez Contreras, may exert considerable influence.

The stability of the interim regime, which will probably continue Venezuela's pro-US and anti-Communist orientation, may depend in large degree on the cooperation and unity of military and civilian groups, both among themselves and with each other. The problems facing the new government are likely to be compounded by the return of large groups of political exiles and possibly by a sharp public reaction to the prolonged dictatorship and its repressive policies.

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INDONESIA

Dissident regional leaders in Indonesia have decided to postpone the declaration of either an independent Sumatran state or a rival Indonesian government, but they are still trying to bring about the resignation of the Djakarta cabinet. Their decision apparently resulted from the influence of moderate leaders in Sumatra, the advice of anti-Communist elements in Djakarta, former Vice President Hatta's firm refusal to participate in a separatist movement, and the central government's threats of economic and military retaliation.

The Djakarta government continues its efforts to undermine the disaffected areas. The navy's interception of several small vessels engaged in illegal barter trade between the outlying provinces and foreign ports is probably the forerunner of more widespread activity which the government hopes to carry out when it gets additional military equipment from foreign countries. Eight ships engaged in the profitable barter trade with Singapore were reportedly detained when they touched at ports controlled by the central government.

Army Chief of Staff General Nasution is making extensive efforts to solve command problems in North Sumatra, the one area in Sumatra which remains loyal to Djakarta. The government apparently is also encouraging the central Celebes, now under the administration of the disaffected northern part of the island, to demand separate provincial status. The Indonesian Army, meanwhile, claims to have documentation of Sumatran plans for independent

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

CURRENT INTELLIGENCE WEEKLY SUMMARY

23 January 1958

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political action. An army spokesman states that General Nasution will suppress "by definite action" any independence move.

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CURRENT INTELLIGENCE WEEKLY SUMMARY

23 January 1958

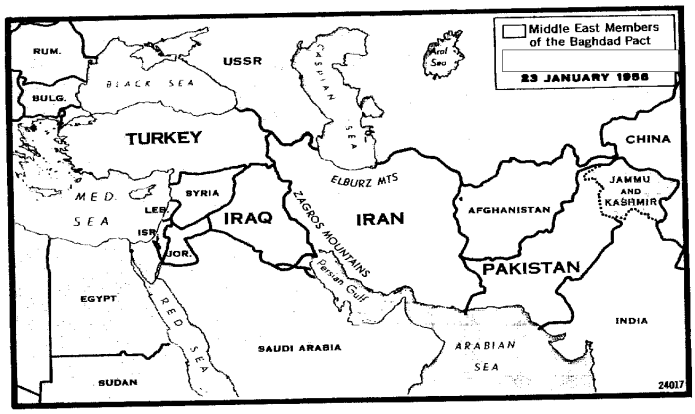
PART II

NOTES AND COMMENTS

BAGHDAD PACT MINISTERIAL COUNCIL MEETING

The fourth Baghdad Pact Ministerial Council meeting is to convene in Ankara from 27 to 30 January. Pact committees began preparatory work on 17 January. The eight months since the last council meeting at Karachi have been a period of consolidation for the organization, although it has been under vigorous attack by the Soviet bloc, Egypt, Syria, and the leading Asian neutrals.

Since most members at the forthcoming meeting apparently intend to raise controversial issues, the pact's most difficult test of unity may occur. Iran will probably express strongly its growing dissatisfaction with its share of the benefits of membership. The Shah has stated he regards the meeting as crucial and that unless more military aid is provided by the United States, Iran may withdraw from the pact and "patch up" with the USSR. The Shah fears that, despite American nuclear retaliation on Russian targets, without sufficient Iranian forces to hold the Elburz mountain line north of Tehran Soviet forces could penetrate deeply into Iran. Turkey may back Iran's stand for more military aid but will probably continue to support those approaches which it believes the US would favor.



Pakistani President Mirza is concerned over Iran's attitude and has suggested that the Shah be invited to preside over a conference of the heads of state and prime ministers of pact countries in Tehran in the belief that they might persuade him to limit his dealings with the USSR.

Pakistan, however, in pursuit of its own interests, may inject into the council meeting its troubles with India. It may again attempt to have members express support for Pakistan on the Kashmir problem, and broaden the interpretation of the pact to cover action against potential aggressors other than the Soviet bloc countries. 25X1

The Iraqi delegation will probably raise the Palestine problem and suggest a settlement on the 1947 partition lines.

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Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

CURRENT INTELLIGENCE WEEKLY SUMMARY

23 January 1958

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An attempt may be made during the meeting to counter the effects of the vague Soviet offer of unlimited economic aid announced during the recent Afro-Asian Solidarity Conference in Cairo. The council will also discuss the desirability of closer and more formal liaison with NATO and SEATO. An effort will probably be made to persuade the United States, now a member of the military, economic, and countersubversion committees, to become a full member of the pact. [redacted]

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STEPS TOWARD EGYPTIAN-SYRIAN UNION

Egyptian President Nasir apparently has decided to yield to Syrian importunities to begin negotiations on Egyptian-Syrian union. An early announcement on the question has been forecast by the Egyptian press. Agreement on the constitutional setup of the proposed union is still to come; present views seem to favor a "federal" relationship with a single president, i.e., Nasir. The target date for completion of a draft constitution is said to be August 1958, prior to the scheduled Syrian parliamentary elections.

Much of the psychological impact of the union move--which has been portrayed as a first step toward the Arab nationalist goal of a single united Arab state--may be lost during haggling over details on the constitution. Nasir, doubtful that the union is in his interests, has set stiff conditions--the removal of the Syrian Army from politics, the abolition of Syria's political parties, and assurances that full control will be in his hands. While the Syrian political leaders are now asserting loudly that they will make any sacrifice necessary to achieve union, it remains to be seen whether they will be able or willing to meet these terms in practice.

The Syrian Army almost certainly looks forward to a "removal" from politics like that which has taken place in Egypt, with army officers assuming the most important government positions. A still knottier problem over the longer run may be contrasting economic conditions; Egypt's economy is "controlled," while Syria's is relatively "free."

Syrian and Egyptian officials are now seeking to assure at least tacit Western approval for the move by telling Western diplomats that union is insurance against a Communist take-over in Syria. The Egyptians presumably still wish to neutralize or drop the two leading pro-Communists, Chief of Staff Bizri and Deputy Prime Minister Azm. However, the Syrians and Egyptians could with equal truth appeal to the USSR for support on the basis that Egyptian-Syrian union would be a stronger bar to a return of dominating Western influence to the area and that it would forestall any plans the "imperialists" might have for Syrian-Iraqi or some other type of Arab union. The USSR has evidently adopted a wait-and-see attitude toward a union after last summer's encouragement met with little response from Cairo.

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

CURRENT INTELLIGENCE WEEKLY SUMMARY

23 January 1958

King Hussayn of Jordan is directly affected, since an organic tie between Cairo and Damascus would exercise a very strong attraction in West Jordan, for nationalistic, political, and economic reasons.

King Saud is in a difficult position on the issue. He cannot oppose it publicly for he himself is a leading proponent of Arab unity and has urged moves to block the rise of Communist influence in Syria. But Saud also fears Nasir's influence and the impact which the added prestige for Egypt's revolutionary philosophy might have within Saudi Arabia.

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The American Embassy in Jidda reports that the present atmosphere there seems to be one of skepticism that the union plans will be carried out.

The Iraqis would seem less immediately concerned, although the Egyptian-Syrian moves would almost certainly shatter their own dream for an Iraqi-Syrian union. The Iraqis, like the Saudis, may believe there will be many more words than action on the union issue, and that their strategic position as the base of Western influence in the Arab states is not now endangered. They also might face internal problems if they came out openly against Egypt and Syria on this question;

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SECRET KHRUSHCHEV-GOMULKA TALKS

The USSR and its Warsaw Pact allies may be preparing to announce countermeasures to the decisions taken at the Paris NATO meeting. At a reception at the Argentine Embassy in Warsaw on 20 January, the Soviet army attaché told the American military attaché that Khrushchev and Gomulka at their recent secret meeting near the Polish-Soviet border considered the interrelationship of the Warsaw Pact arrangements, the Rapacki plan, and the Paris decisions. The length of the meeting and the fact that neither the USSR nor Poland has commented on it suggest that there was considerable difficulty in reconciling divergent interests.

Several members of the Warsaw diplomatic corps have received a report that the meeting was attended by several Soviet and Polish generals, suggesting that military affairs were a major topic. The discussions also may have ranged over other subjects, including party affairs and economic aid to Poland.

Khrushchev may have suggested a Warsaw Pact meeting to formalize measures to counter the decisions made at the December Paris NATO conference.

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countermeasures might include the equipping of the Warsaw Pact forces with nuclear weapons and guided missiles. Although frequent official Communist statements have declared that the action envisaged by the NATO conference would require a strengthening of the Warsaw Pact forces, Gomulka may have serious reservations about the basing of nuclear weapons or guided missiles in

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

CURRENT INTELLIGENCE WEEKLY SUMMARY

23 January 1958

Poland. He may feel that a Warsaw Pact meeting now for this purpose would be ill-timed in view of Western reaction to the Rapacki plan for a nuclear-free zone in central Europe.

Poland's grave economic situation may also have been discussed in view of a report that P. V. Nikitin, deputy chairman of the Soviet Committee on Foreign Economic Relations, accompanied Khrushchev at the talks. Gomulka probably informed the Russians of Poland's continuing need for economic aid, particularly hard currency, grain, industrial raw materials, and capital goods. He may have discussed a general increase in trade over the record 1957 levels.

Polish officials have been very closemouthed about the talks. British Foreign Office officials have commented that the length of the talks suggests that agreement was not easily reached, a view supported by the fact that no official comment has been made. The British feel that Moscow's lead in announcing the meeting may indicate it was sought by Khrushchev and that the Polish role had been more reaction than action.

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SATELLITES PLAYING MORE ACTIVE FOREIGN POLICY ROLE

Recent foreign policy moves by the Eastern European satellites constitute what appears to be a coordinated attempt to improve relations with the West and play a more active role in international affairs. While these moves have clearly been in line with Soviet foreign policy, some satellite leaders apparently view their increased role in foreign affairs as strengthening their own regimes' sovereignty and prestige. The Poles hope such policies as the Rapacki plan may eventually lead toward the withdrawal of Soviet troops.

Bulgaria has recently renewed its efforts to resume diplomatic relations with the United States. During the January negotiations concerning the two recent plane incidents, moreover, the Albanians went out of their way to be reasonable, using the opportunity to make official contact with the British and the Americans, probably as an initial step in an effort to establish diplomatic relations.

Rumania has also shown interest in recent months in improving its relations with the West, especially the United States, and has taken new initiatives in support of Soviet foreign policy. Only last September, Rumania proposed a nonaggression pact for the Balkan countries, a regional arrangement similar to the "Baltic Sea of Peace" proposal which Poland was pressing last summer. According to statements by Polish officials, the Poles apparently believed their own interests would be served through promoting the Baltic proposal, and they also hoped the plan would simultaneously encourage Rumania to promote its own independence.

Polish and Yugoslav officials have attempted recently to create the impression that Rumania desires increased independence from the USSR. Both Poland and Yugoslavia, as the leading proponents of separate roads to socialism, would have their reasons for desiring increased autonomy for Rumania.

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

CURRENT INTELLIGENCE WEEKLY SUMMARY

23 January 1958

Moscow probably does not discourage these initiatives, with the view that if Rumania, for example, appears to the West and to the uncommitted countries to be more independent, it will be more effective than the Soviet Union itself in promoting some phases of Soviet policy.

The Poles are clearly furthering Soviet policy through their efforts in connection with the Rapacki plan, as are the Bulgarians through their similar proposal concerning the Balkan countries. The Poles, however, apparently consider the Rapacki plan useful for their own purposes--especially as protection against a Germany armed with nuclear weapons, and as a source of international prestige for Poland in having formally proposed a first step to disarmament in Europe. 25X1

EAST GERMANY ATTACKS LEGALITY OF WESTERN OCCUPATION OF BERLIN

The East German Communists are attempting to establish a juridical basis for challenging the right of the Western powers to continue occupying Berlin. A recent article in the authoritative East German foreign affairs journal, German Foreign Policy, presents for the first time a legalistic argument to the effect that the four powers previously agreed that Berlin was not established as an independent occupation area, separate and apart from the four occupation zones, but was in fact a part of the Soviet Zone.

The article was written by Professor Herbert Kroeger of Humboldt University--a prominent East German legal figure and Communist party editor. Kroeger refers to various arguments claiming that West Berlin is a part of the Federal Republic and then cites early laws and declarations by the occupation powers to prove that this is not the case. As a matter of fact the Western powers have not claimed that West Berlin is a part of the Federal Republic, but on the contrary have consistently maintained that the city is under four-power control and separate from all occupation zones.

East Germany has heretofore observed the city's quadripartite status and has not annexed East Berlin as an integral part of East Germany.

Kroeger now tries to prove, however, by citing early documents, that "Berlin was not an occupied zone of its own, but belonged to the territory of the Soviet Zone of Occupation," even though it was kept intact and administered jointly by the four occupying powers as the presumptive capital of a unified Germany.

This joint administration was legal, Kroeger contends, only as long as the Potsdam Agreement was observed. Kroeger argues that the division of the city in 1948--which the Communists charge resulted from Western violations of the Potsdam Agreement--terminated the legal basis for the Western powers to participate in the administration of Berlin.

The argument delineated by Professor Kroeger will probably be amplified and publicized by the East German press. An article justifying East Germany's claim to sovereignty over its air space which appeared in the

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

CURRENT INTELLIGENCE WEEKLY SUMMARY

23 January 1957

same journal in September 1957 was followed by Soviet refusal to clear American flights between Berlin and Warsaw and Berlin and Moscow on the grounds that such requests must be made to the sovereign German Democratic Republic. Kroeger's treatise on Berlin's legal status is probably the juridical preparation for what may develop into a major effort against continued Western occupation of Berlin. [redacted] 25X1 25X1

SLOVAK SEPARATISM INCREASING PROBLEM FOR CZECHOSLOVAK REGIME

The Czechoslovak regime is displaying mounting concern with the problem of Slovak separatism. Nationalistic Slovaks have attempted to use the new economic powers granted to Slovakia under the Czechoslovak economic decentralization to benefit Slovakia's own regional interests rather than to meet nationwide goals. Disaffection of Slovak Communist party members over what is considered excessive control from Prague has intensified, and the party is now faced with a difficult situation.

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The dismissal on 13 January of Slovak Deputy Premier Stefan Sebesta for "bourgeois nationalism" may herald a purge of officials with nationalist tendencies who occupy high posts in the Slovak government. Such a development, as well as other efforts to curb nationalist tendencies in the party, may be revealed in the extraordinary party congress scheduled for May.

Nationalism and strong separatist tendencies in Slovakia have plagued the Prague central regime since the Communist coup in February 1948. At various times during the past ten years, strong measures to check these tendencies have been undertaken, particularly in the period following the Slansky purge in 1952 when many leading Slovak Communists were charged with nationalist deviationism and sentenced to jail for long periods. Since the Soviet 20th party congress in February 1956, there has been a resurgence of separatism in Slovakia, and since the Slovak Communist party congress in April 1957, this tendency has been condemned in increasingly stronger terms by the Prague regime.

The party's concern over Slovak regionalism was highlighted at the Slovak Communist party central committee plenum on 9 and 10 January when Party First Secretary Bacilek declared that separatist tendencies were being encountered in cultural,

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

CURRENT INTELLIGENCE WEEKLY SUMMARY

23 January 1958

political, and scientific life, and even in the government. At the regional party congress in April 1957, Bacilek had claimed that separatist elements were still engaged in sabotage and that former People's party members were attempting to infiltrate their ideas into Slovak literature and their members into the state apparatus.

At that meeting, Czech party boss Novotny emphasized the danger from "revisionist" or "bourgeois" groups and promised that such factions would be ruthlessly hunted down and suppressed both in the Czech lands and in Slovakia. Following this unusual confession of internal difficulties, several prominent Slovak editors were removed from their positions, and others publicly recanted their views.

Bacilek's statement at the January plenum, taken in conjunction with earlier warnings from Prague, indicates that Slovak nationalists, particularly within the party and government apparatuses, can expect a sharp increase in central party control over economic administration and party affairs in Slovakia. 25X1

F. I. GOLIKOV--NEW POLITICAL CHIEF OF SOVIET ARMED FORCES

Colonel General Filip I. Golikov, who recently replaced A. S. Zheltov as chief of the Main Political Administration of the Soviet Armed Forces, has been characterized as a versatile career officer who has had a wide range of field, staff, and diplomatic assignments. Unlike his predecessor, who served primarily as a party functionary, Golikov has the stamp of the professional soldier. As a professional with long experience with cadres and training, he may be able to make political supervision somewhat more palatable to the officer corps and may also help to smooth over any bad effects of the Zhukov ouster. Thus Golikov appears to be a good compromise, not only for the army but also for the party, which has ordered stepped-up political indoctrination in the armed forces.

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Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

CURRENT INTELLIGENCE WEEKLY SUMMARY

23 January 1958

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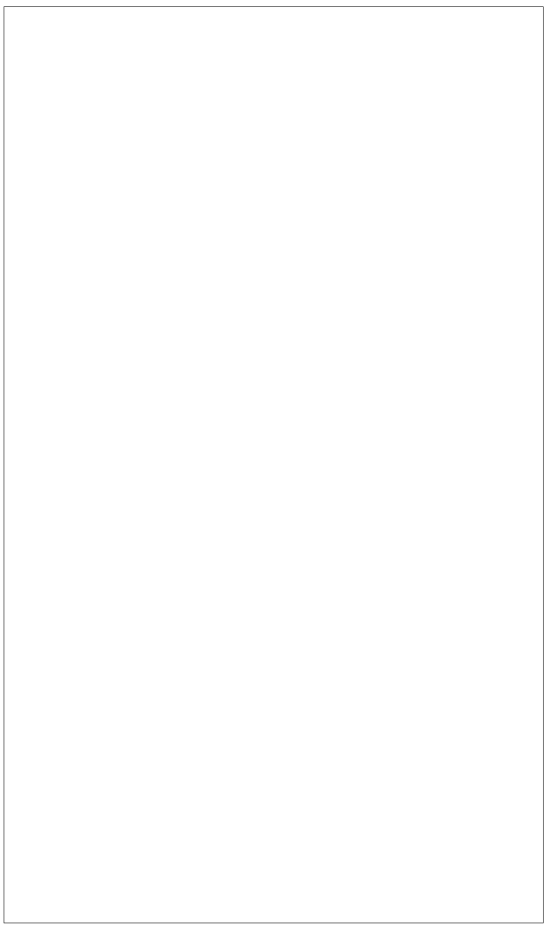
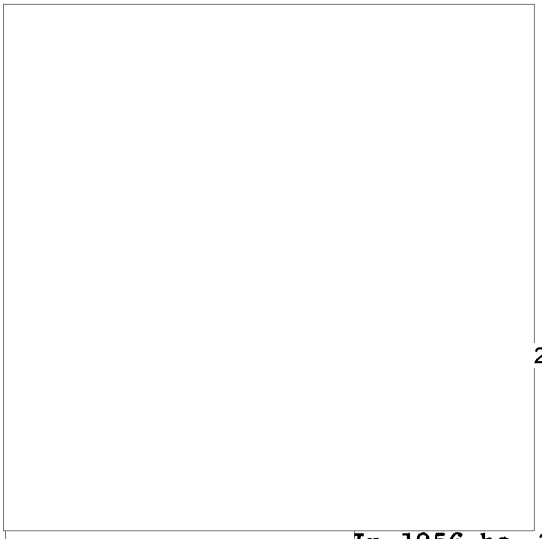


Toward the end of the war, Golikov was appointed head of the Soviet repatriation Commission, attached to the USSR Council of People's Commissars but apparently retained his cadres position. During this time his actions helped increase tension between the USSR and the Western Allies; he frequently issued press releases accusing Britain and the United States of unfair tactics in handling Soviet citizens liberated from the Germans.



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In 1956 he 25X1 was elected a delegate to the 20th party congress but was passed over for membership on the central committee.

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SOVIET VIEWS OF US ECONOMIC TREND

Soviet propaganda, in reaction to present trends in the American economy, has renewed its emphasis on the theme of an approaching economic crisis in the United States. Official Soviet spokesmen, however, have not fixed a date for a depression and have adopted a wait-and-see attitude based on an appreciation of the changes in the US economy since 1929. In view of past failures in predicting economic trends in the West and continuing official criticism of Soviet research on capitalism, it is unlikely that the Soviet leaders are basing their policies on any firm expectation of an imminent economic collapse in the United States.

Since early December the Soviet press and radio have carried an increasing number of dispatches from TASS correspondents in the United States highlighting the "alarm signals" appearing in the American economy. These dispatches, based

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Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

CURRENT INTELLIGENCE WEEKLY SUMMARY

23 January 1958

primarily on articles appearing in the American press, picture the economy as manifesting all the signs of an incipient depression brought on by overproduction--growth of unemployment, rising living costs, increased bankruptcies of small firms, and a production drop in basic industries.

Soviet articles for internal consumption featuring the "plight of the American unemployed" and the "tax burdens of the American population" are intended to convince the Soviet people that the lot of the average citizen in the richest and most powerful capitalist country is far worse than their own. In keeping with the effort to discredit the United States in world opinion, Soviet commentaries abroad have called the budget submitted by the President to Congress a "war budget" and charged that the "captains of American industry" are attempting to escape the approaching economic crisis by embarking on the "slippery road of a stepped-up arms race."

Despite the vigor with which Soviet propaganda has sought to exploit the trouble spots in the American economy, the principal Soviet specialists on capitalism, working in the Institute of World Economy and International Relations, have been reserved in their appraisals of the US economic outlook. While they have intoned frequently about the approaching end of the "temporary upsurge" in the economy, they have set no date for the crisis. A leading Soviet economist, L. M. Gatovsky, editor in chief of Problems of Economics, admitted in a conversation with a Western economist last October that Soviet research on the economies of the West was outdated and contained many absurd propagandistic notions.

The statement of I. Kuzmin, chairman of the State Planning Committee and a deputy chairman of the USSR Council of Ministers, about the US economy is also in marked contrast to the sensationalist tone of Soviet propaganda. In an article published last November in the authoritative party journal Kommunist, he revealed that Soviet plans to overtake the United States in the economic field were not based on the assumption of a depression there. He predicted that the US economy would continue to grow in the next 15 years, though at a lower rate than that of the USSR.

While Kuzmin's remarks were intended primarily as a warning against Soviet complacency in the economic race with the United States, they probably reflect official thinking on American economic stability more accurately than does the current shower of Soviet propaganda. 25X1

COMMUNIST CHINA'S DRIVE AGAINST COUNTERREVOLUTIONISTS

Within the past few weeks Peiping has stepped up publicity on the activities of public security organs in ferreting out and punishing individuals hostile to the regime, a move which suggests that the final stages of the "rectification" campaign--scheduled to end in May--will be marked by selective terror tactics. Although Chinese Communist spokesmen have

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

declared that "rightists" should not be harshly treated solely for political errors, they have emphasized that "criminal" activity must be severely suppressed, and it is likely that during the next few months many "counterrevolutionary elements" will be discovered among groups tainted with political deviation.

The Chinese Communists have recently announced a series of executions of persons accused of counterrevolutionary activity. Among those sentenced is a person accused of bringing about the death of Mao Tse-tung's brother in the 1920's. The sentencing of those accused of past crimes apparently has frightened others liable to suspicion into attempting escape. Peiping announced last week the capture of a former Chinese Nationalist governor of Szechwan as he tried to cross the border into Hong Kong.

Minister of Public Security Lo Jui-ching has called for continued vigilance in the struggle against enemies of the regime. In a speech broadcast by Peiping on 4 January, said to have been delivered "in coordination" with the rectification campaign, Lo revealed that between June 1955 and October 1957 more than 100,000 counterrevolutionaries and other "criminals" had been discovered. Of these, Lo said, 5,000 had infiltrated the Communist party, where 260 were cadres at county level or higher. Another 3,000 had penetrated the Young Communist League. He declared that 220 of the "most heinous counterrevolutionaries" had been unearthed in central government organs. In addition some 370,000 "bad elements" in society at large had voluntarily surrendered.

Lo warned that the fight against enemies of the regime must continue and might at times become "extremely severe." He promised that the top leadership would assume responsibility for "inevitable" mistakes in order to maintain the zeal of low-level cadres for their work against counterrevolutionaries.

On 19 January the regime broadcast renewed attacks on Minister of Communications Chang Po-chun and Minister of Timber Industry Lo Lung-chi--both previously pilloried as "rightists"--and reported they had confessed to "recruiting" counterrevolutionary elements. Some members of their organizations, as well as some under still-unrepentant Minister of Food Chang Nai-chi, may well be fired and perhaps arrested at the National People's Congress scheduled to convene on 25 January. The announcement last week that 29 counterrevolutionaries had been arrested in offices subordinate to the Ministry of Building Materials Industry suggests that additional central government organs will be involved.

It appears unlikely that Peiping is planning renewed use of mass terror at this time. Lo Jui-ching pointed out that the regime's policy is to strike hard when the enemy is strong but to follow a lenient course after the enemy has begun to "disintegrate." Chiang Hua, first secretary of the Chekiang provincial party committee, reiterated this concept in a speech last month which was hailed by Peiping as of national significance. Chiang implied that because the mass of rightists now have been exposed, a period of relative relaxation would be possible. Attacks on selected individuals would, however, serve as a climax to the rectification campaign and at the same time help maintain the "vigilance" of the people.

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Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

CURRENT INTELLIGENCE WEEKLY SUMMARY

23 January 1958

LE DUAN NOW SECOND TO HO CHI MINH IN NORTH VIETNAMESE HIERARCHY

In the last six months, North Vietnamese politburo member Le Duan has risen from virtual anonymity to a commanding position in the hierarchy and now appears to be the ranking figure after Ho Chi Minh. Chosen to accompany Ho to the Moscow conference in November 1957, Duan has since acted as the principal party spokesman, and his name has immediately followed Ho Chi Minh's in all official announcements. Duan is believed to be a proponent of a "hard" line in party affairs, and his ascendency may suggest a return to stricter party control and orthodoxy by Hanoi. His emergence coincides with the decline of Defense Minister Giap, whose association with the moderate agrarian program of 1956-57 may have undermined his political usefulness.

Le Duan, born in 1908 and a revolutionary at an early age, was one of the earliest members of the Indochinese Communist party (PCI). He was sentenced in 1931 to 20 years' imprisonment for causing labor unrest but was pardoned in the general political amnesty of 1936. Rearrested in 1939, he remained imprisoned until liberated by the Viet Minh in 1945. He may possibly have spent part of his youth studying in Moscow.

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25X1 In mid-1957, however, his increased party stature was indicated by the appearance of articles signed by him in the party organ Nhan Dan. In October, Hanoi radio announced he was a member of the party secretariat, probably the most powerful policy-making body in the regime.

Le Duan has been appearing regularly at public functions in the company of former Secretary General Truong Chinh, and the two may be cooperating as members of the same hard-line faction. Truong Chinh's dogmatism is well known; and Duan in his report on the Moscow conference laid great stress on the need to fight revisionism.

Duan appears to have the organizational ability and political alertness which are needed to achieve the regime's publicized new goal--the socialization of agriculture.

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Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

CURRENT INTELLIGENCE WEEKLY SUMMARY

23 January 1958

FRENCH PREMIER GAINS BRIEF RESPITE

French Premier Gaillard's position remains precarious despite the National Assembly's 334-to-226 endorsement of his foreign policies on 22 January. He expects little difficulty in the imminent debate on the Algerian statute, but assembly antipathy to his proposed constitutional reforms will probably increase opposition on the Algerian and other pending issues.

Foreign policy issues rarely excite the deputies, who usually reserve their heavy attacks for domestic issues or questions of colonial policy. Gaillard professes not to be concerned over the debate starting on 24 January on the slight changes the Council of the Republic proposed in the Basic Statute for Algeria. Socialist qualms over a further watering down of the statute's provisions will probably be voiced, but the main threat to the government in this debate may be a by-product bf more acrimonious issues.

It is likely that the full force of rightist concern over Tunisia may be concentrated in the discussions on Algeria. The seizure of the Yugoslav ship allegedly carrying arms to the rebels has probably helped the government, but rightist diehards may press for a more nationalistic stand against President Bourguiba.

Behind each issue Gaillard now approaches is the threat posed to the deputies' prerogatives by his proposed constitutional reform. Opposition on this issue is crystallizing and there is increasing danger that other questions will not be considered solely on their individual merits, but will become submerged in the differences over reform of the confidence vote and dissolution procedure. In any event, the deputies will feel freer to attack the government after the question of external aid is cleared up, and particularly so on single issues not explicitly involving the question of France's relations with its allies. 25X1

SPAIN'S TRADE RELATIONS WITH EASTERN EUROPE

Spain is stepping up the development of direct commercial ties with Eastern European countries on a semiofficial basis. Madrid will continue to avoid formal recognition of Communist regimes, but an exchange of trade representatives may result.

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By allowing semiofficial or private organizations to handle negotiations, Madrid maintains the

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

CURRENT INTELLIGENCE WEEKLY SUMMARY

23 January 1958

fiction of not dealing with Communist governments.

Commerce Minister Ullastres seems to be behind the move to dispense with the previous triangular deals in which another Western European country served as middleman.

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Ullastres and his trade advisers feel the only way to offset Spain's recurrent trade losses from the effects of adverse weather on export crops is to step up the export of manufactured goods. Eastern European countries appear to offer an attractive outlet for high-cost Spanish products which have practically no market in the West. (Concurred in by ORR)

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CYPRUS

Prospects for a settlement of the Cyprus controversy have deteriorated seriously since the beginning of the year. The guarded optimism in Cyprus and Greece following Sir Hugh Foot's initial acts as governor of Cyprus is gone, and a new international crisis over the status of the island may be developing.

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25X1 In recent statements, Foreign Minister Fatin Zorlu has emphasized a new sense of urgency in Turkish views on Cyprus by insisting on "immediate" partition.

The Turkish action may preclude a British demarche in Athens at this time, although both the Greek Government and the Cypriot Ethnarchy would probably reject any plan which includes possible partition of the island. Greek Cypriot leaders, however, might accept a plan for Cypriot self-government if given some assurance by the British of a re-examination at some future date of means to implement self-determination.

The British cabinet will not announce its Cyprus program until the end of January and may make only a very general statement in Parliament. London is faced with the nearly insurmountable problem of proposing a solution which will not upset the present relative calm on Cyprus or seriously damage British relations with Greece or Turkey.

Unless some provision for self-government not precluding eventual self-determination without partition is announced,

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

CURRENT INTELLIGENCE WEEKLY SUMMARY

23 January 1958

the Greek Cypriot underground organization EOKA is expected to launch a new campaign of violence. Any proposals acceptable to the Greeks, however, may seriously endanger British-Turkish relations and could result in the organization of Turkish Cypriots into an effective underground movement. The latter action would have serious repercussions in the administrative and police organizations on Cyprus, in which Turkish Cypriots hold numerous responsible positions.

New violence from either ethnic group on Cyprus would probably lead to eventual communal clashes which, in turn, would further alienate Athens and Ankara. 25X1

INDIAN CONGRESS PARTY CONVENTION

Resolutions passed at the annual convention of India's ruling Congress party in Assam from 15 to 19 January again pointed up India's major problems of food production, land reform, industrialization, and the lack of national unity.

Under pressure from the left wing of the party, Prime Minister Nehru reaffirmed the party's goal of a "socialistic pattern of society" despite recent emphasis on the role of private enterprise in India's industrialization program. Nehru also reiterated his government's adherence to the policy of "nonalignment" in foreign affairs, irrespective of economic assistance from abroad.

The resolution on international affairs urged the major powers to pursue negotiations on a disarmament agreement and to end nuclear testing. India's position on the issues of Kashmir and Goa was also restated in now familiar terms.

Primary attention, however, was given to domestic problems. Nehru and other Congress leaders stressed that the number-one problem before the country was food production, which they hoped, probably unrealistically, would be increased by 40-60 percent during the next two or three years. A resolution on the economic situation outlined a program for mobilizing farmers to step up production, accelerating rural development, and stimulating small-scale urban and village industries. Another resolution called for rapid implementation of land reforms, which have lagged in many areas, as a prerequisite to higher food production.

One of the most controversial questions concerning national unity considered by the convention was that of India's national language. Growing pressure from non-Hindi-speaking regions during recent months has apparently forced the Congress high command to adopt a less rigid stand on conversion to Hindi as the national language by the constitutional deadline of 1965. The party approved a resolution stating that the transition to Hindi would necessarily be "gradual," and that a "flexible" approach was needed. In addition, special provision would be made for the continued use of English even after it is replaced by Hindi as the official language in 1965.

Measures taken to strengthen the Congress party organization reflected the high command's urgent objective of bringing "fresh blood" into the executive ranks and increasing party contacts with the rural masses. There continues to be little indication, however, that such decisions of the national leaders will be translated into effective action at the provincial level. 25X1

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

CURRENT INTELLIGENCE WEEKLY SUMMARY

23 January 1958

RECONSTRUCTION PLANS IN CEYLON

Ceylon has moved from the disaster stage to a period of reconstruction and rehabilitation following the recent floods. The government is taking steps to counter the results of the floods and the strikes last November and December. Foreign aid, domestic loans, and complete nationalization of Colombo port are the three principal means under consideration for coping with the problem.

Colombo has notified the West German Government that it will seek half the total cost of rehabilitation following flood damage--estimated at $126,000,000--in 2-percent loans from the United States, Great Britain, France, Germany, and the USSR. West Germany has indicated interest in extending a rehabilitation loan at 4 or 5 percent.

A Soviet trade mission now in Colombo is negotiating a basic trade and payments agreement and discussing Soviet assistance promised for Ceylon's development program. It is said to have offered Ceylon a low interest, long-term loan of unspecified proportions to help finance a variety of development projects. It is not known whether the USSR has made any additional offer specifically to help meet rehabilitation needs. However, acceptance and implementation of Soviet offers in such fields as irrigation and flood control would help Celyon's rehabilitation efforts.

The Ceylonese Government also plans to develop relief and rehabilitation schemes to provide grants to destitute families and finance reconstruction of government-built housing in newly developed agricultural areas. It may float substantial domestic loans if foreign aid is insufficient.

Ceylon's cabinet on 22 January approved full government control of Colombo port as a means of eliminating further serious dislocation by strikes. Leading private business, trade, and plantation groups in Ceylon have apparently urged the government to take immediate action to ensure normal port operations. The measure would also facilitate the immediate unloading of food cargoes during the present food shortage, and would expedite Ceylon's export trade, a principal source of revenue. [redacted] (Concurred in by ORR) 25X1

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Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

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CURRENT INTELLIGENCE WEEKLY SUMMARY

23 January 1958

PART III

PATTERNS AND PERSPECTIVES

1958 RICE PROSPECTS IN FREE ASIA

Because of unfavorable weather in 1956 and 1957, rice, the main food staple of Asia, threatens to become increasingly scarce during the coming year, and several countries in southern Asia--particularly Ceylon and Indonesia--are likely to encounter serious food problems. It is estimated that total 1957-58 rice production in the principal producing countries of non-Communist Asia will be 5 percent below last year.

While the shortfall is general throughout the area, India, Burma, and Thailand account for most of the decline. An even larger general deficit was avoided by a sharp increase in Japanese production, which will probably amount to 6 percent over last year.

The seriousness of the production decline is further aggravated by the lack of sizable area stockpiles. The substantial rice surpluses built up by Burma and Thailand prior to 1956 were largely disposed of in 1956 and 1957. As a result, the price of rice is likely to increase this year as deficit countries compete for available supplies.

Over-all, the rice shortages this year will probably be manageable, but a much more serious problem is likely to occur next year if the 1958-59 crop is not substantially higher than the current crop.

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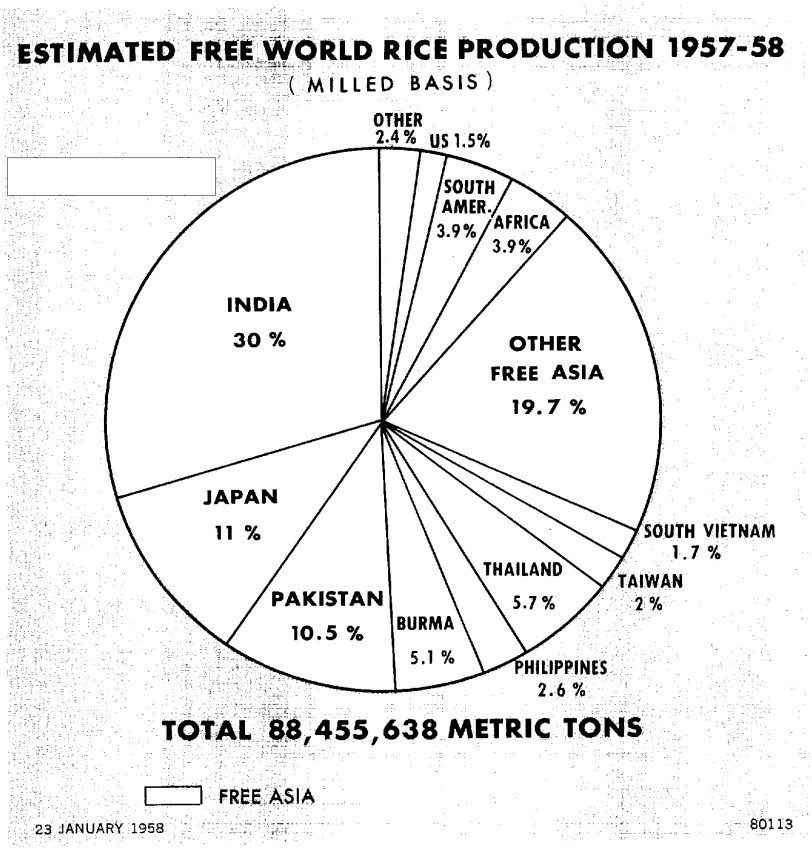

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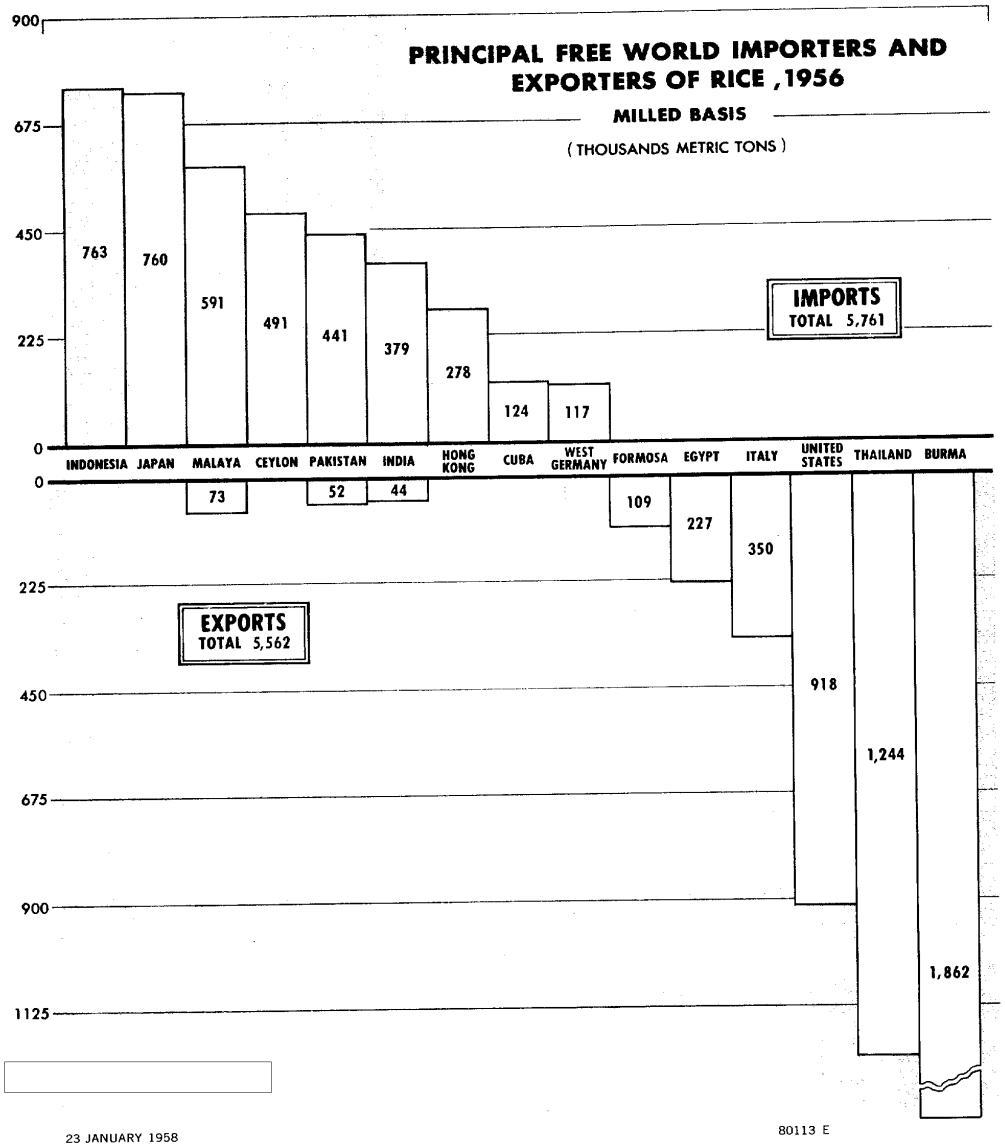
Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

CURRENT INTELLIGENCE WEEKLY SUMMARY

23 January 1958

Communist Exploitation

The Communists would undoubtedly attempt to exploit a food shortage. Not only would the inevitable unrest work to the advantage of local Communist parties, but the bloc countries could pose as saviors by making at least token shipments of grain to stricken areas. Communist China is already reported to have offered to trade 25,000 tons of rice to Indonesia for rubber. Another possibility would be for the USSR to provide rice obtained from Burma; the recent extension of a $6,000,000 loan to Burma, repayable in rice, provides a basis for such a deal.



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Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

CURRENT INTELLIGENCE WEEKLY SUMMARY

23 January 1958

India

India produces more rice than any other country in free Asia but is also probably the area's largest rice importer. Last year Indian imports increased by almost 70 percent to 640,000 tons, and there are indications that for the next few years import requirements will be in excess of 454,000 tons annually.

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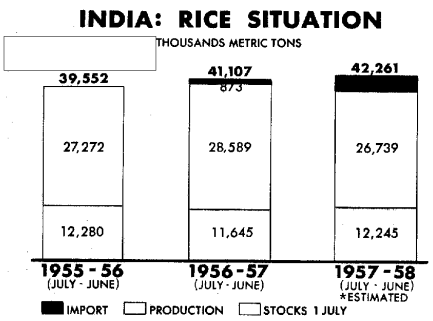

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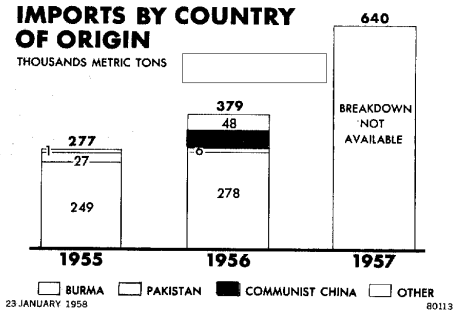

Rice production in India, with a population that has increased by at least 5,000,000 annually in recent years, has been unable to keep pace with consumption. The current crop, moreover, is about 7 percent lower than last year, largely because of drought. In addition, per capita rice consumption has been increasing.

There are sufficient stocks on hand to avert famine this year if distribution is adequate. Stocks at the end of June are estimated to have been about 12,244,000 tons, more than enough to take care of the expected deficit. However, since the government apparently believes that stocks should be maintained at at least that level, India will probably mount a major drive to increase imports this year.

Burma

Rice production for the current crop year in Burma, the world's largest rice exporter, is at least 10 percent below last year and could fall as much as 15-20 percent. This means a substantial reduction in rice available for export.

Under the terms of an agreement reached in May 1956, Burma is expected this year to export over 454,000 tons of rice to India, traditionally the largest importer of Burmese rice. India took nearly one third of total Burmese exports for the first nine months of 1957. Another third was exported to Ceylon and Indonesia. With favorable crops at home, Japanese imports of Burmese rice will probably not increase over last year.

The shortfall in rice available for export will add further strain to Burma's balance-of-payments position and will force additional cutbacks in its development program. As a result of overimportation of consumer goods in 1957, foreign exchange reserves shrank to a disturbingly low point by the end of the year.

Indonesia

Indonesia, one of the world's largest rice importers during 1957, has suffered a moderate decline--about 3 percent--

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

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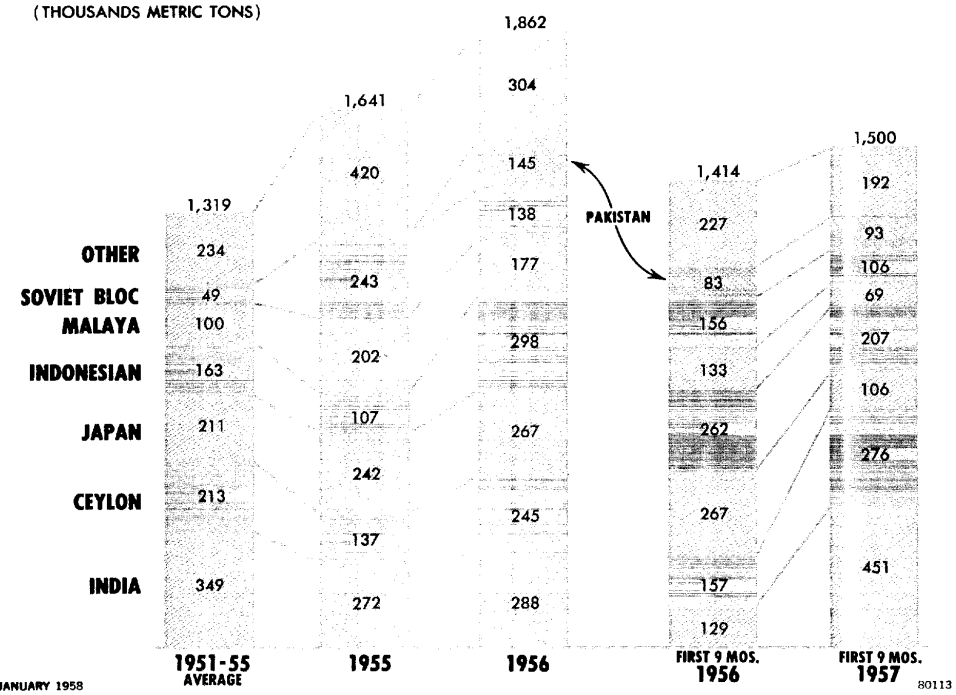
BURMA: RICE EXPORTS

(THOUSANDS METRIC TONS)



in its 1957-58 rice crop. As a result, imports this year may reach an all-time high. Indonesian rice imports in 1956 were six times as high as in 1955, and were probably somewhat larger during the past year.

Although there has been a marked disruption in economic activities since the recent anti-Dutch campaign began, the problems of rice distribution antedate the present disturbances. Before 1957, local Chinese were the most important factor in the Indonesian rice trade, and when the government placed restrictions on their commercial activities, minor shortages occurred as a result of maldistribution. The situation became more serious following the government's takeover of Dutch shipping facilities, when local army commanders, in order to ensure food supplies for the army, limited the flow of rice from surplus areas. Hoarding, black-market selling, and bribery have all helped to divert rice from the normal markets and increase its price.

Government imports of rice have been seriously delayed because of confused payments arrangements and general inefficiency in financial and commercial channels. Indonesia's geography poses a more serious distribution problem than in most countries. Even an adequate over-all supply of rice would not preclude famine and starvation in certain parts of the country. With the government take-over of Dutch interisland shipping, the current year will probably be characterized by scattered famines. (See following article for fuller discussion of the effects of the anti-Dutch campaign.)

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

CURRENT INTELLIGENCE WEEKLY SUMMARY

23 January 1958

Ceylon

Ceylon's current rice harvest, because of floods and drought, will probably be down about 15 percent from last year. Stocks are believed to be quite low, and Ceylon will probably have to increase imports again this year over the record high in 1956. A rice-rubber agreement with Communist China, under which Ceylon formerly imported 250,000 tons of rice annually, has been modified, and imports from this source will probably not exceed 200,000 tons during the current year.

The conditions which allowed an increase in the rice ration--a large carry-over at the beginning of 1956 and large imports from Communist China and Burma--are no longer present, and a lowering of the rice ration in 1958 is probable. Imports from Burma may decrease as a result of a reduced Burmese crop and obligations under that country's long-term agreement with India.

Thailand

Thailand, the free world's second largest rice exporter, harvested a 1957-58 rice crop which was about 10 percent less than a year earlier. As a result, Bangkok will probably decrease exports substantially.

Traditionally, Japan and Malaya are Thailand's biggest customers, accounting for over 60 percent of all exports in 1955. Japan, despite its increased harvest this year, will probably attempt to keep imports from Thailand at about the level of previous years. Malaya, with a crop about 8 percent lower than last year, hopes to increase imports of Thai rice by at least enough to make up the deficit.

Other Asian Countries

The Malayan rice crop is down somewhat from last year and probably will provide only enough rice for about 45 percent of requirements for the coming year. With lower harvests themselves, Burma and Thailand, which together accounted for about 96 percent of Malayan imports last year, may experience some difficulty in making up the Malayan deficit. Consequently the Malayans have

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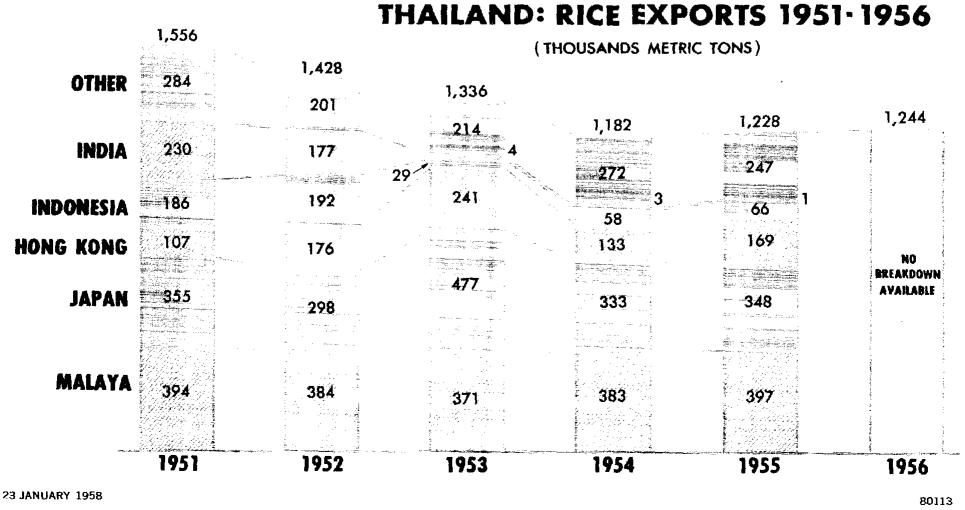

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

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been making inquiries to develop new sources of rice.

Despite the largest crop on record, the Philippines will probably try this year to increase rice imports--of which Thailand has been providing over 60 percent--because of the increasing demands of its expanding population.

The 1957-58 rice crop in Pakistan probably increased about one percent over 1956-57. Despite this increase, sizable imports will be required this year. [redacted] 25X1

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ECONOMIC CONSEQUENCES OF INDONESIA'S ANTI-DUTCH CAMPAIGN

Indonesia's seizure of Dutch properties and planned expulsion of Dutch technicians will cause further economic deterioration in Indonesia and perhaps chaos unless adequate technicians are found to replace the Dutch. The anti-Dutch program has already resulted in falling production, reduced exports, and rapidly rising prices. Recent developments have given local Communists and Soviet bloc countries excellent opportunities to expand their economic influence in Indonesia.

Economic Conditions

Indonesia's basically agrarian economy has remained virtually at subsistence levels since World War II. While progress has been made toward self-sufficiency in food production and minimum consumer goods imports have been met until recently, Indonesian living standards are probably below prewar levels and continue to decline. The only dynamic elements in the economy are the Western-owned oil companies and agricultural estates, which are the major sources of government revenues, domestic savings, and export earnings. The Dutch account for approximately 70 percent of foreign investments, and Dutch investment predominates in all fields except petroleum extraction and refining.

The economic deterioration during 1957 will make it particularly difficult to counter the disruptive effects of the anti-Dutch campaign. Gold and foreign exchange reserves declined from $592,000,000 at the end of 1951 to $220,000,000 at the end of October 1957. The Indonesian rupiah, although officially valued at 11.4 to the dollar, has fallen to nearly 50 to the dollar, and the price of many imported items more than doubled during 1957. The price of rice in Djakarta and many rural areas has increased about 100 percent since mid-1957 owing more to distribution than to production failures.

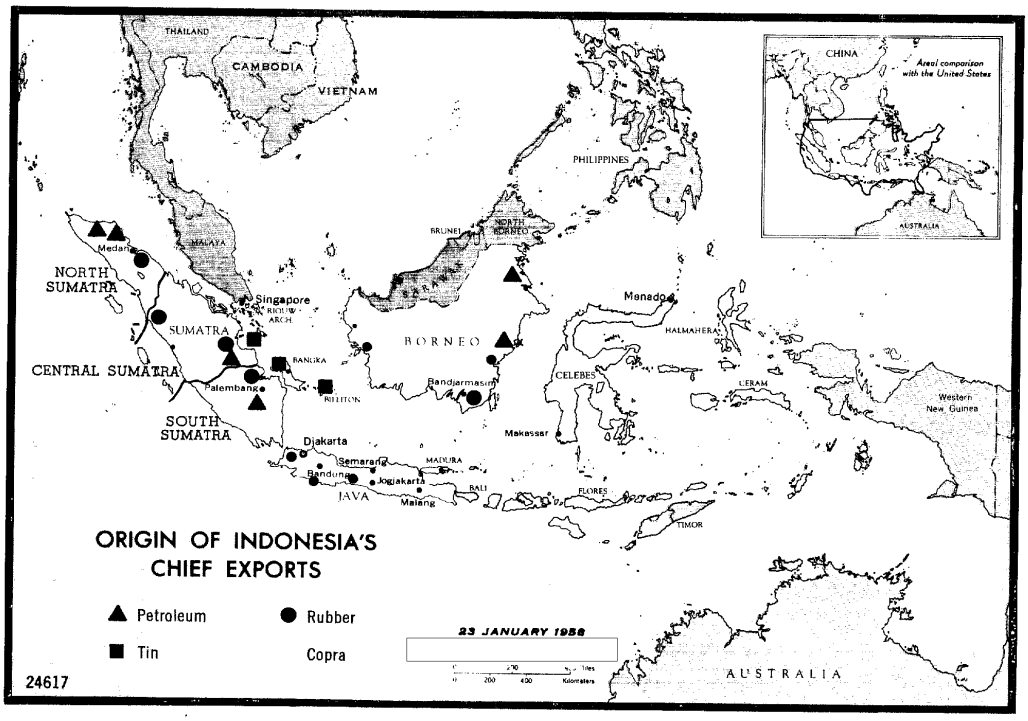
The outer islands, which produce over three fourths of Indonesia's exports but receive less than one fourth of its imports, are resorting increasingly to barter trade. To date, the major Western companies there have continued to clear their foreign exchange earnings through the central government for local

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

CURRENT INTELLIGENCE WEEKLY SUMMARY

23 January 1958



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currency but may soon be forced to turn them over to the local regimes, which would cause further economic deterioration on Java.

The finance minister, in persuading the cabinet on 8 January to outlaw barter trading by the outer islands, emphasized the drain on foreign exchange brought about by the present situation and warned that desperate financial conditions would develop within the next two months.

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in Surabaya--the second largest port and city--the continuing decline in commodity traffic is resulting in severe unemployment. Djakarta has also been seriously affected by unemployment, and other areas are experiencing shortages of food and supplies, which could increase unrest.

Dutch Interests and Personnel

There are no precise figures on the present value of Dutch investments in Indonesia, but it is estimated to be $1.2-1.5 billion--probably less than half the prewar figure. While Dutch interests in railroads, agricultural banking, and public utilities have largely passed to Indonesia, they are still very important in such key fields as rubber, petroleum, and sugar. The Dutch also dominate international trade and banking, shipping, and technical engineering.

There were about 150,000 Dutch nationals in Indonesia when the anti-Dutch campaign began--including 100,000 Eurasians, many of whom will seek evacuation if all those of pure Dutch extraction are expelled. About 10,000 Dutch left in December and an equal number are scheduled to leave in January.

There probably are between 10,000 and 15,000 Dutch managerial and technical personnel in Indonesia. About a third of these are employed in operating

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Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

the agricultural estates which produce almost half of Indonesia's rubber, most of its sugar and palm oil, and much of its tea, coffee, and quinine. Dutch personnel have a near monopoly in the technical engineering fields and, together with resident Chinese, are the key personnel in financial and trading enterprises. Although Indonesia's tin mining company is now owned by the government, a Dutch company and Dutch technicians have been retained to operate the mines.

Most of the ships' officers of the Royal Packet Line Company (KPM) --which carries about 70 percent of the interisland trade-- are Dutch, as are the men and officers of the Dutch shipping companies which handle about half of Indonesia's foreign trade. In addition, the Indonesian Government shipping line employs some Dutch personnel.

The Royal Dutch Airlines (KLM) has a management contract with Garuda Indonesian Airways under which it supplies most of the key Garuda personnel. Garuda's dependence on KLM is particularly acute in the case of maintenance personnel; Indonesian ground crews probably could not keep the planes operating with any regularity if all the Dutch technicians were withdrawn.

Many of the key employees of the major petroleum companies operating in Indonesia are Dutch. However, since two of these companies are US-owned and the Netherlands has only a minority interest in the third, the Indonesian Government might not feel it has to expel the Dutch employees of these firms.

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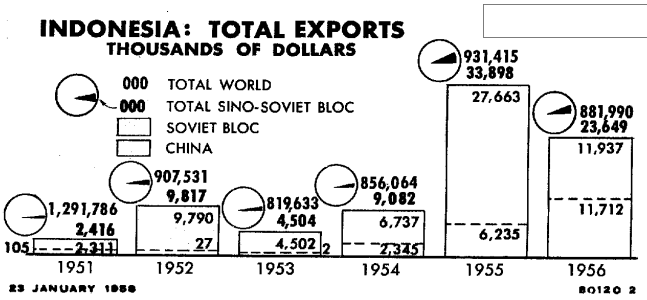

Present Outlook

Some Indonesian officials appear to be having second thoughts about expelling all the Dutch but will probably find it difficult to persuade Sukarno and other top leaders of the necessity of reaching a modus operandi with the Dutch. Any Indonesian concessions to induce the Dutch to remain are likely to be too little and too late.

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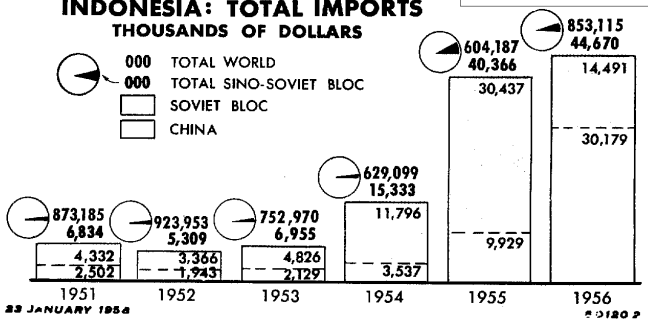

While some Dutch officials evidently believe a last attempt should be made to launch negotiations to salvage the remainder of the Dutch investment in Indonesia, prospects for a Dutch initiative in this direction are poor. If no significant political changes occur during Sukarno's absence, most Dutch businesses intend to depart lock, stock, and barrel. Such action might leave Indonesia on the

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

brink of economic chaos. Many Dutch companies have already decided to abandon their properties and evacuate their personnel. So far there is no evidence that the Dutch are taking a different attitude toward their investments in the outer islands despite the fact that the regional military commanders have not interfered with the operations of Dutch companies.

Alternatives to the Dutch

Indonesia will find it difficult to persuade free world firms and technicians to replace the Dutch, and probably will have to pay high salaries in hard currency to induce them to come.

Although the Scandinavian Airways System (SAS) has made a tentative agreement to take over the canceled Royal Dutch Airline route to Djakarta, it is doubtful that SAS could recruit without considerable delay enough personnel to replace the Dutch who are working for Garuda. The lack of interisland shipping to transport gasoline to airfields on the outer islands has already forced Garuda to cancel some of its flights.

Indonesian refusal to utilize Dutch international shipping lines would not mean an irreplaceable loss in view of the present world surplus of maritime vessels. Indonesia will find it much more difficult to obtain ships for its interisland trade, however, as most of the KPM vessels were specifically designed for use in tropical waters, and only their Dutch officers have a thorough knowledge of the shipping routes in the 3,000-island archipelago. In addition, shipowners probably will insist on high rates and payment in hard currency--demands which have so far prevented an agreement with Japanese shipowners. The sharp curtailment of interisland aviation and shipping services will further weaken the ties between Java and the outer islands.

Indonesia probably can secure some technicians from nearby countries to operate its tin mines and agricultural plantations, but the number will be far from sufficient. It probably will be forced to try to fill the gaps in these fields by promoting Indonesians, which would mean less efficiency and lower production. In trade and banking, Indonesia will be increasingly reliant on resident Chinese, many of whom are oriented toward Peiping.

Japan has shown more interest than any other country in replacing the Dutch. Tokyo's recent agreement to cancel Indonesia's $177,000,000 trade deficit and grant $225,000,000 in reparations should enable Japan to expand its role in Indonesia, although it probably will be difficult for the two countries to reach mutually acceptable terms. West Germany has also indicated interest in expanding its activity in Indonesia, although no definite agreements have been reached.

INDONESIA: PRINCIPAL EXPORTS
(THOUSANDS OF DOLLARS)

	1951	1952	1953	1954	1955	1956
FOODSTUFFS						
TEA	36585	25365	23421	39825	31135	23616
COFFEE	21319	19570	30088	40000	15958	28506
TOBACCO	20530	18525	24035	32106	27748	28640
PALM OIL	33163	27740	27544	25526	22246	25585
SUGAR	2106	1520	10526	23070	20088	17308
RAW MATERIALS						
RUBBER	627206	464765	270528	265441	429913	303913
POL PRODUCTS	163710	181142	195484	226242	212329	224623
TIN ORE & SLAG	81066	93195	80790	59474	59488	61987
COPRA	128442	55100	56930	50946	35328	38766

23 JANUARY 1958

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Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

CURRENT INTELLIGENCE WEEKLY SUMMARY

23 January 1958

Indonesia's inability to secure adequate free world technicians would give the Communist bloc an excellent opportunity to expand its influence in the islands. Bloc countries probably can provide necessary aviation, technical engineering, mining, and petroleum personnel as well as some shipping. They are not likely to be of much assistance, however, in supplying personnel to operate the agricultural plantations. The bloc could supply banking and trade personnel, but such persons would be unfamiliar with Indonesian trade patterns. It also seems likely that the Communist countries will offer to purchase additional quantities of Indonesian products and to extend economic aid.

While all of these measures would require time to become effective, the countries of the Soviet bloc can move fast enough to prevent economic chaos if they so desire. 25X1

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BUILD-UP OF BONN'S MILITARY POWER

Almost three years after the end of the Allied occupation, West Germany has made some progress toward building up its defense force, but the build-up is still plagued by unresolved strategic questions which have contributed to serious lags in the original schedule.

When the dynamic Franz Josef Strauss became defense minister in late 1956, he scaled down the original NATO commitment--500,000 men and 12 divisions by the end of 1959--to a new goal of only 303,000 men by early 1961, calling this more realistic for the nuclear age. He has since continued to examine the problem of modern weapons for West Germany without reaching a final decision.

By the end of 1957, Bonn had approximately 120,000 men in uniform. Rearmament, once the most controversial of Chancellor Adenauer's policies, has been accepted by most West Germans, according to public opinion polls. Some prewar conditions have reappeared: the old army uniforms are beginning to replace those of the US type; former SS officers are being accepted in the ranks. There is also growing opposition to the reform movement which has attempted to "democratize" the armed forces.

Equipment

West German military leaders are convinced Bonn must have weapons of the most modern type suitable to the nuclear age. They fear the expensive equipment now being ordered will be obsolete within two or three years.

Present plans call for introduction of more modern weapons throughout the armed forces. Three battalions equipped with Honest John rockets are envisaged by 1961, and three antiaircraft battalions armed with Nike missiles and one wing with Matador missiles are also planned. 25X1

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

CURRENT INTELLIGENCE WEEKLY SUMMARY

23 January 1958

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Army

The army has been assigned top priority in the build-up, and has encountered relatively few difficulties. Strauss continues to stress that the present seven divisions must be trained and equipped before new units are created.

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Planners have already adapted to the nuclear age by cutting the divisional size to 13,000, along the lines of the American "pentomic" divisions. Two armored and three infantry divisions are now assigned to NATO, and a mountain division and an airborne division will be turned over to NATO in 1958. These divisions are at only two-thirds' strength and still inadequately trained and equipped. Only about 10 to 20 percent of the personnel have completed advanced training, and last October's divisonal maneuvers were considered to have been premature and too ambitious. Divisional commanders benefited, however, and the divisions are expected to be an effective fighting force by mid-1959.

The army has been hampered somewhat by

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

equipment problems. Opposition has developed to some of the US-supplied equipment, notably the M-47 and M-48 tanks, which are considered too unwieldy. The Germans may produce a lighter tank with the French, and will undoubtedly start manufacturing more of their own equipment, including machine guns and armored carriers. A German firm has recently completed development of a small antitank rocket which is being tested by the army.

Strauss has created some opposition among top army officers because of his own impetuosity and strong-arm tactics. He appears, however, to have weathered the storm of criticism from the old-time generals which resulted when he sacked his chief of military personnel for obstructing his rapid promotion policy.

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CHRONOLOGY OF WEST GERMAN REARMAMENT

19	Sept 1950	BONN PERMITTED BY ALLIES TO SET UP ITS FIRST FEDERAL "POLICE;" STARTS FORMING 20,000-MAN QUASI-MILITARY BORDER POLICE.
25	Oct 1950	"BLANK OFFICE" FORMED; THEODOR BLANK TO ADVISE ADENAUER ON MILITARY MATTERS.
26	Oct 1950	FRENCH PREMIER RENE PLEVEN PROPOSES FORMATION OF EUROPEAN DEFENSE COMMUNITY (EDC).
26	May 1952	FOREIGN MINISTERS SIGN EDC AGREEMENT, TO BECOME EFFECTIVE ON RATIFICATION, AND PERMIT BONN A 500,000-MAN FORCE AND 12 DIVISIONS.
30	Aug 1954	EDC KILLED THROUGH FRENCH NATIONAL ASSEMBLY REJECTION.
3-23	Oct 1954	LONDON AND PARIS CONFERENCES; WEST GERMANY TO JOIN NATO AND RAISE NATIONAL MILITARY FORCES OF SAME SIZE AS PLANNED IN EDC.
5	May 1955	END OF ALLIED OCCUPATION; WEST GERMANY GRANTED SOVEREIGNTY.
6	June 1955	DEFENSE MINISTRY HEADED BY BLANK CREATED FROM "BLANK OFFICE."
20	Sept 1955	CHANCELLOR ADENAUER ANNOUNCES THAT ARMY WILL BE FULLY READY BY 1 JANUARY 1959, AND NAVY AND AIR FORCE ONE YEAR LATER.
12	Nov 1955	FIRST VOLUNTEERS ENTER ARMED FORCES.
7	July 1956	CONSCRIPTION LAW PASSED BY BUNDESTAG.
27	Sept 1956	12-MONTH MILITARY SERVICE LAW PASSED BY BUNDESTAG.
16	Oct 1956	FRANZ JOSEF STRAUSS REPLACES BLANK AS DEFENSE MINISTER.
7	Nov 1956	STRAUSS ANNOUNCES NEW CONCEPT--"QUALITY BEFORE QUANTITY."
23	Jan 1957	GENERAL HANS SPEIDEL NOMINATED TO COMMAND NATO GROUND FORCES IN CENTRAL EUROPE.
20	Mar 1957	GENERAL ADOLPH HEUSINGER NAMED TO TOP POSITION OF INSPECTOR GENERAL OF ARMED FORCES.
1	Apr 1957	FIRST CONSCRIPTS (10,000) CALLED UP.
5	Apr 1957	CHANCELLOR ADENAUER STATES THAT TACTICAL ATOMIC WEAPONS INDISPENSABLE FOR WEST GERMAN FORCES.
12	Apr 1957	18 LEADING SCIENTISTS SIGN "GOETTINGEN MANIFESTO" OPPOSING ATOMIC WEAPONS FOR WEST GERMANY.
1	July 1957	FIRST THREE GERMAN ARMY DIVISIONS TURNED OVER TO NATO COMMAND.
24	Aug 1957	FIRST AIR FORCE UNIT ACTIVATED.
1-11	Oct 1957	FIRST DIVISIONAL FIELD EXERCISES BY ARMY.
1	Jan 1958	TWO MORE ARMY DIVISIONS TURNED OVER TO NATO COMMAND.

Air Force

The air force is divided into two operational forces: the Tactical Air Force and the Air Defense Force. Neither is combat-ready and only transport units have been assigned to the NATO command. The planned total of 56 squadrons remained fairly firm, and the activation of the first units is scheduled for February. By 1961 seven fighter-bomber wings, two day fighter wings, and two tactical reconnaissance wings will become operational. By 1961, the Air Defense Force will put five wings into operation in addition to Nike and Matador missile groups. The failure to fulfill original schedules is primarily caused by the lack of trained pilots and the reluctance of the Defense Ministry to decide on the quantities and types of aircraft.

At full strength the air force will have 1,100 aircraft, compared with a previous plan for 1,326. The cutback reflects the increasing tendency to substitute missiles for interceptors in the Air Defense Force. Strauss and air force chief General Kammhuber are inclined

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

to a balanced missile and interceptor force, but some air force planners see interceptors as rapidly becoming obsolete.

This fear of obsolescence has caused a long postponement in the decision on a type of interceptor. Strauss recently indicated he would prefer to purchase some American models and produce the remainder locally under an American license. Primary consideration is being given the French Mirage III and the American Grumman F-11F1 and Lockheed F-104A Starfighter. Already selected are the US-produced F-84F as a fighter-bomber, the Canadian Sabre VI as a day fighter, and the RF-84F for tactical reconnaissance.

Familiar German names are once again appearing in the aircraft industry. Heinkel, Messerschmidt, and Focke-Wulf are producing trainers under foreign license. Dornier is producing the DO-27, a light monoplane trainer, the only German-designed aircraft in the air force. The Telefunken firm is developing an anti-aircraft missile in cooperation with several other German firms.

Navy

The navy is organized primarily to support NATO forces in the North Sea and the Baltic. Three mine-sweeping squadrons and one motor torpedo boat squadron, already assigned to NATO, took part in the NATO naval exercises in September. As the present 13,000 man force expands to 23,000 by 1961, a small but effective antisubmarine, escort, and mine-sweeping navy will be established. Present plans call for 14 squadrons, including destroyers and destroyer escorts. Over-all ship strength will be approximately 170, in addition to two naval aviation groups and 11 or 12 submarines.

The navy will eventually be equipped almost entirely with German-designed and -manufactured ships. Coastal mine sweepers and PT boats are already being produced, the keel is laid for the first destroyer escort, and three salvaged World War II submarines have been reconditioned. German shipyards will eventually produce 12 destroyers, the first three by April 1961. Although the Western European Union treaty limits production to smaller submarines and warships, German naval planners have expressed interest in obtaining or producing missile-launching ships and American Terrier missiles.

Home Defense Force

This newly created force is apparently designed for wartime defense of key installations and communications, but its eventual size and make-up are still uncertain. Strauss has indicated he might want to expand it to 200,000 men, and will keep it under purely German control. Officially the Germans have indicated the force will contain only 37,000 men by early 1961; several units are now activated. Bonn may plan to rotate large groups of older draftees through a short training period, thus providing a large trained reserve available at all times, similar to the Swiss pattern. 25X1

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Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

CURRENT INTELLIGENCE WEEKLY SUMMARY

23 January 1958

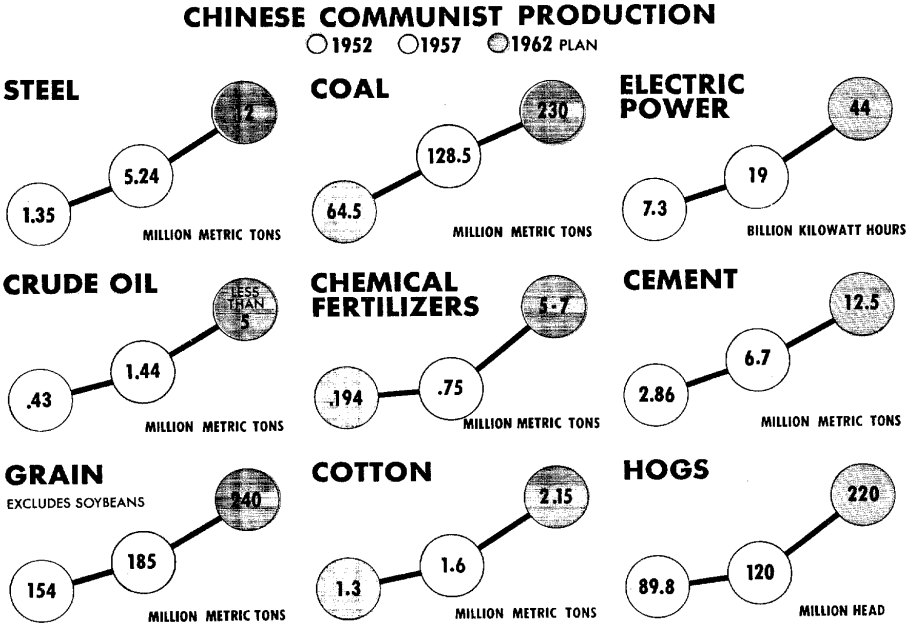
COMMUNIST CHINA BEGINS ITS SECOND FIVE-YEAR PLAN

January 1958 marks the beginning of Communist China's Second Five-Year Plan. The leadership in Peiping, in assessing its prospects for the period, has been heartened by the "triumphant materialization" of the First Five-Year Plan just concluded, during which China's gross national product increased at an average annual rate of 6 percent. Industrial output increased by 130 percent, while heavy industrial output alone trebled. Investment in new plant facilities reached almost $20 billion and industrial fixed assets doubled.

Per capita consumption increased at an average of only 2 percent per year during the plan period, and per capita consumption in rural areas failed to go up at all. While increases in agricultural production lagged far behind those in industry, 97 percent of the nation's farm households were collectivized during the plan--some ten years ahead of schedule.

Peiping has also been cheered by the fact that it successfully met the worst problems it encountered during the first plan: the serious raw material shortages, budgetary deficit, depleted reserves, and inflationary pressures which developed in 1956 as a result of an overly exuberant construction program during that year. The People's Daily likens the present mood of the leadership to that obtaining in late 1955 and early 1956.

The present ebullience is perhaps most clearly indicated by recent strictures against "conservatives," defined by the People's Daily as those who think that too much was attempted in 1956, who regard the long-range agricultural program as "too impetuous," and who feel that the five-year plans have been "off the mark." This sort of "skepticism"--permissible in a mild form for a time in 1957--has now been "sternly repudiated" by Peiping.



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Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

CURRENT INTELLIGENCE WEEKLY SUMMARY

23 January 1958

National People's Congress

Peiping has taken an unusual step in calling the National People's Congress into session on 25 January. The agenda for the congress features the 1958 economic plan and budget, which have hitherto been considered by the congress in June or later. Targets tentatively set last summer were raised in planning conferences held in Peiping during December.

Although the extent of the revisions has not been publicized, it is likely that the plans to be considered by the congress will be bullish. This would reflect recent assertions by party leaders that China should be able to surpass Great Britain in the production of certain industrial items within 15 years and, in the case of chemical fertilizer, within five years. Peiping has also suggested that it might catch up with the United States by the end of the century.

These long-term targets are advanced in general terms and are probably intended largely to illustrate China's glowing future under socialism, but they do show the mood of the policy makers in Peiping as the Second Five-Year Plan opens.

Speed of Industrialization

All of the economic programs formulated by the Chinese Communists have been "hard line" programs in the sense that they aim for a high rate of capital accumulation, imposing heavy burdens on the Chinese people, particularly the peasantry, which comprises more than 80 percent of the population. These programs have varied, however, between extremes of "adventurism" and "conservatism," terms which Peiping applies to programs out of favor.

In the first half of 1957, almost all Chinese Communist pronouncements on economic matters were conservative. An anticonservative line began to pick up adherents in September. By the end of the year, four of China's five top leaders--Mao Tse-tung, Liu Shao-chi, Chou En-lai, and Teng Hsiao-ping--had associated themselves either directly or indirectly with the present line of "forging ahead full steam" and of insisting that greater quantity, speed, quality, and economy can be achieved simultaneously. Also associated with this line have been three other politburo members closely connected with economic planning and coordination--Li Fu-chun, Po I-po, and Li Hsien-nien--as well as those members of the party secretariat who appear to be concerned with the implementation of economic policies, Tan Chen-lin and Li Hsueh-feng.

The only member of the top five whose position seems uncertain is Chen Yun. He is known to have made only one speech in recent months--which was not published--and has been out of the news since early November. His inactivity may be caused primarily by illness; a photograph of the party leadership at the December trade union congress showed an empty chair in Chen's place, suggesting he was still in favor at that time.

In any case, he may be the leader of whatever "conservative" group may still be active. If so, he may conceivably be supported by Teng Tzu-hui, who apparently led the conservative opposition to Mao's agricultural socialization in 1955, and whose speeches suggest that he shares Chen's relatively strong awareness of basic economic obstacles. It is unlikely these or other possible high-level "conservatives" will be severely treated, as the inner circle cannot have forgotten their experiences of 1956 and 1957.

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

CURRENT INTELLIGENCE WEEKLY SUMMARY

23 January 1958

"Crucial" Investment Ratios

While the regime seems determined to increase the portion of the national income set aside for investment purposes, agriculture probably will be given a larger slice of the investment melon in the immediate future. A more rapid expansion of agricultural output is considered essential to meet the demands of a rapidly growing population for food and clothing. Investment in this sector is therefore to be increased "where appropriate," but only after "ensuring the steady development of heavy industry."

CHEN YUN

Within heavy industry the greatest stress will be given to the raw materials and fuels industries and to chemical fertilizers. Within agriculture state investment will emphasize large, multipurpose water conservancy works.

Light industry seems doomed to remain neglected as it was during the First Five-Year Plan, when heavy industrial production increased more than 1.5 times as fast as did production in light industry. Light industry chieftain Chia To-fu has explained, as have other leaders, that living standards can rise only slowly, and Peiping continues to advocate individual and household austerity in the "long-drawn-out, tense struggle and days of hardship" lying ahead.

Location of Industry

More attention will be paid during the Second Five-Year Plan to the construction of small- and medium-size enterprises. The wisdom of this course was widely discussed in early 1957, following Chairman Mao's statement that this policy should be adopted in order to "do more with less money." Other reasons advanced for such a program have been that big, modern, automatic plants tie up too much capital for too long a period, that they slow growth rates and bring uneven development, and that they fail to utilize fully local resources and manpower. Less has been said about this program in the last few months, but it is assumed still to form a part of Chinese industrial planning.

The latter part of the Second Five-Year Plan will bring a shift away from the extreme emphasis on the Northeast which has characterized Chinese industrial development to date. By then new iron and steel plants will have been put into operation at Paotow and Wuhan, while a new hydroelectric power plant will begin generating at Sanmen. Long-range planner Li Fu-chun remarked recently that the industrial center in the Northeast has been "basically completed." Present plans for the development of the Anshan iron and steel complex, described by Li as the "center" of industrial development in the Northeast, end in 1960, and construction experts are already being shifted from there to other parts of the country.

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

CURRENT INTELLIGENCE WEEKLY SUMMARY

23 January 1958

Agriculture

Events in 1957 clearly belie Chairman Mao's bland assurances of last February that the situation in rural areas was "basically sound" and that there were no grounds for the view that "something had gone wrong with the cooperatives." Something was patently wrong in the countryside and it was centered in Mao's cooperatives.

Both Liu Shao-chi, Mao's first lieutenant, and Teng Tzu-hui, who may still be the party's top agricultural specialist, have acknowledged that the living standards of the peasants are "still very poor."

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The regime's persistent explanations as to why worker incomes are so much higher than peasant incomes reflect a deep and abiding peasant resentment of this discriminatory treatment. Teng Hsiao-ping noted in September that opposition to cooperatives and to the state's forced delivery programs existed in the rural areas along with other "serious rightist views."

The regime's revised long-range agricultural development program retains most of the ambitious yield targets of the original version published in early 1956. Peiping claims that 11 percent of the nation's 750,000 cooperatives had by the end of 1957 achieved these targets. The new version does more in the way of providing the "objective conditions" to meet the goals, particularly an almost 20-fold increase in the output of chemical fertilizer.

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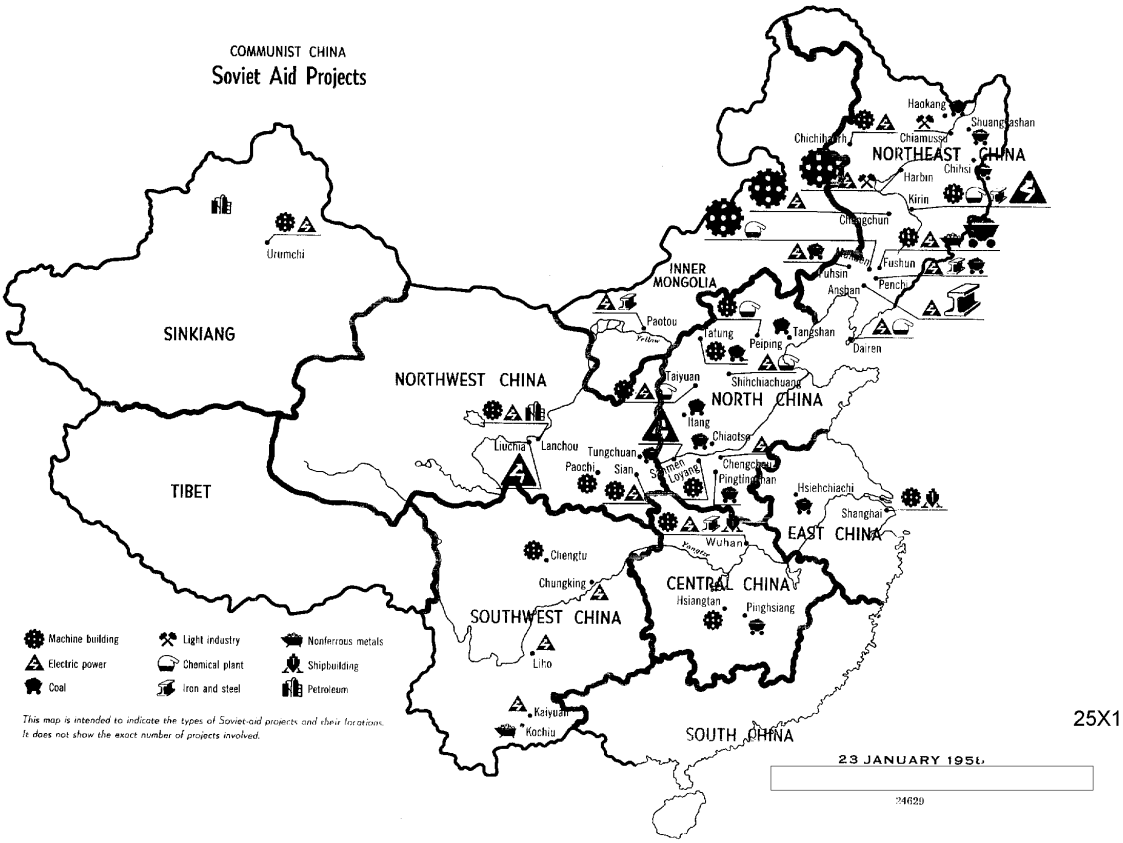

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Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

The revised plan also lays heavy stress on such labor-intensive methods of lifting yields as small-scale water conservancy work.

Peiping also issued a set of regulations to tighten up the administration and improve the performance of the nation's cooperative farms, a subject given much attention during the year. A December directive of the State Council put remaining individual peasants--whose relatively high standard of living has annoyed Peiping--under the "authority and supervision" of nearby cooperatives, which are empowered to extract "compulsory" duties from them and thus "educate" them to join the cooperative "voluntarily." The cooperative will doubtless continue to be the basic production unit during the Second Five-Year Plan.

The Problem of Population

The Chinese Communists are inhibited by their ideology from forthrightly attacking certain very stubborn economic problems. One of these is the problem posed by China's population, which had reached 640,000,000 by the end of 1957. It is increasing by some 15,000,000 every year and will reach 710-720 million by 1962. Last year, for the first time since Peiping came to power, the country's output of foodstuffs increased at a slower pace than did its population, a trend which will have profound effects on the economy unless arrested.

A further irritant in the population question is the current movement of millions of city dwellers to the rural areas, allegedly to become "producers instead of consumers." These millions are being inflicted on China's peasants at a time when the peasants are being asked to produce more and eat less, and it seems doubtful that all of Peiping's persuasive talk will make the newcomers welcome. Nor for that matter will the emigrants regard their changed circumstances with joy.

Soviet Aid

Soviet economic credits during the First Five-Year Plan were small--only 2.6 percent of total imports and 4 percent of investment in new plant machinery and equipment--and had been largely exhausted by the end of 1955. By 1957, budgetary allotments for servicing China's debt to the Soviet Union exceeded budgetary income from Soviet loans by 25 to one.

At the end of 1957, some 57 of the original 156 Soviet "aid" projects--projects which the Russians are helping the Chinese to build, but which are largely paid for out of current Chinese exports--had been completed and were in operation and another nine were partially operating, leaving 90 to be completed during the Second Five-Year Plan.

These projects are the heart of China's industrialization, but the extent of Soviet assistance goes even deeper. The USSR has provided advisers and technical experts in practically all fields of economic endeavor. The number of these advisers is believed to have declined during the past year, perhaps as the projects with which they were associated were completed and Chinese trained for their operation. Top Soviet advisers are reported to wield considerable--possibly even a dominant--influence on Mao and his leading economic policy makers.

Mao may have raised the possibility of new Soviet economic assistance when he was in Moscow late last year. This might take the form of a moratorium on debt service payments due the USSR which will otherwise

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

jump by some two thirds during the next five years.

Economic Outlook

China's gross national product is expected to continue to grow during the next five years--perhaps by as much as 7 percent annually, slightly faster than during the past five years. Industrial targets will probably be met and the lag in the raw material, fuels, and power industries remedied.

A more rapid expansion of agriculture is essential since China remains basically an agricultural economy, and from agriculture must come the food and clothing to feed the growing population and in the final analysis the funds to invest in industry. Despite an increased rate of agricultural investment, it is doubtful that farm income will increase by more than about 17 percent over the next five years. A 12-percent increase in population will eat up much of this increase. Per capita consumption throughout the nation may increase at a slightly higher rate than the 2 percent achieved in the last five years. 25X1

(Prepared by ORR)

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Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0

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Approved For Release 2007/10/23 : CIA-RDP79-00927A001600050001-0